U.S. Bilateral Assistance to Russia: 1992-2002

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Summary

For more than ten years, the U.S. program of foreign assistance to Russia has supported three aims – *security*, by promoting nuclear and chemical weapons nonproliferation activities; *stability*, by supporting a range of programs to create a democratic and economically prosperous Russia that would be a cooperative member of the international community; and *humanitarian relief*, reflecting traditional American values.

Since it was launched, the Russia foreign aid program has been subject to considerable criticism. Some argued the amount of funding was too little, too late; others that too much money was put into projects before the country was ready for reform. Critics protested that the money mostly went to American advisers, while others said it went to support a non-reformist government and the oligarches.

Although the program has had its problems, aid to Russia has resulted in a number of significant achievements. Hundreds of nuclear weapons delivery systems have been eliminated and thousands of scientists employed in peaceful work. Food aid has been provided to the needy. Russians have been exposed to new ideas concerning the workings of democracy and the free market, indigenous think tanks and civic organizations have been supported, and thousands of private business and grassroots activities have been funded.

The assistance program has changed over the decade in response to criticisms, new funding priorities, and changing circumstances within Russia. Security programs now account for two thirds of U.S. aid. Democratic reform efforts and exchanges are better funded than economic reform projects.

Re-assessments of aspects of the aid program in 2001 have led to further changes. Projects to support stability aims are expected to emphasize entrepreneurs, civil society, and health. Nonproliferation efforts will expand material control and accountability programs and scientist demilitarization efforts. The Administration is reportedly planning to propose a large cut in the FY2004 budget for Russia stability aid.

For more detailed discussion of the aid program, see CRS Report 96-261, *Russia and U.S. Foreign Assistance: Current Issues* (March 1996), CRS Report RL30112, *Russia's Economic and Political Transition: U.S. Assistance and Issues for Congress* (May 1999), and *U.S. Assistance to the Former Soviet Union 1991-2001: A History of Administration and Congressional Action* (revised January 2002). This report will not be updated.

Contents

A Decade of Assistance 1
Security Programs 2
Weapons Destruction and Dismantlement 2
Control and Protection of Nuclear and Other WMD (Weapons of Mass Destruction) Material 2
Demilitarization 2
Humanitarian Programs 3
Stability Programs 3
Economic Reform 3
Democratic Reform 4
Social and Environmental Reform 4
Criticism and Achievements 4
Criticism 5
Too Little, Too Late 6
Too Much, Too Early 6
Too American 7
To the Wrong Russians 7
The Wrong Strategy 7
Achievements 8
Security Program Achievements 8
Humanitarian Program Achievements 9
Stability Program Achievements 9
The Russia Program After Ten Years 12
Prospects for the Future 14

Figures

Figure 1. Objectives of U.S. Assistance to Russia: 1992-2001 2
Figure 2. U.S. Assistance for Russian Stability: 1992-2001 3
Figure 3. Objectives of U.S. Assistance to Russia: FY2001 12
Figure 4. U.S. Assistance for Russian Stability: FY2001 14

Tables

Table 1. U.S. Assistance to Russia from NIS Account 6
Table 2. Total U.S. Assistance to Russia 13

Contacts

Author Information 16

1

For more than ten years, the United States has supported programs of bilateral and multilateral assistance to Russia. Although policymakers always anticipated that multilateral financial assistance through the World Bank and IMF would compose the bulk of global efforts to assist Russia, throughout this period the United States has maintained a program of bilateral assistance that more directly and immediately reflects U.S. interests and priorities.

The U.S. bilateral program has had three overarching and related aims – security, stability, and humanitarian relief. The United States has sought to achieve security, both U.S. and Russian, by promoting nuclear and chemical weapons nonproliferation activities. It has sought stability – Russian and world stability – by supporting a range of programs to create a democratic and economically prosperous Russia that would, as a result, be a cooperative member of the international community. Its humanitarian programs, like those elsewhere in the world, often transcend specific U.S. strategic and other interests in Russia – reflecting traditional American values.

As might be evident from the current state of Russia's economy, society, politics, and military, the numerous and diverse projects that were developed to achieve these aims have had a mixed record. Over time, as a consequence of failures, successes, lessons learned, financial constraints, and program restrictions and conditions, the aid program today is substantially different in size and scope than it was early on. How it will change over the next decade is unclear. But in determining where the program is to go in the future, it may be helpful to know where the program has been.[2]

A Decade of Assistance

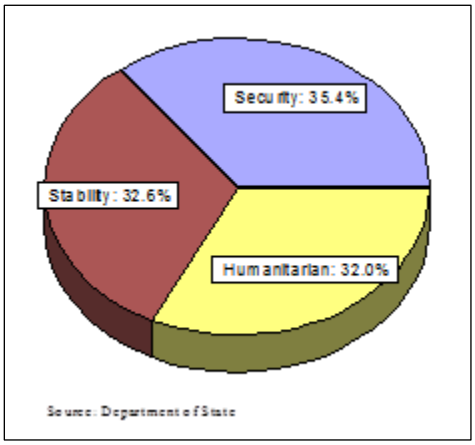
Through September 2001, about $8.9 billion in grant assistance has been obligated for programs in Russia. Roughly 35.4 % of these funds have been targeted for security objectives, 32.0 % for humanitarian goals, and 32.6 % for stability objectives.[3]

[1] This report is a revised and updated version of a study that appeared in Joint Economic Committee, S. Prt. 107-50, *Russia's Uncertain Economic Future*, December 2001.

[2] For further detailed discussion of the aid program, see CRS Report 96-261, *Russia and U.S. Foreign Assistance: Current Issues* (March 1996), CRS Report RL30112, *Russia's Economic and Political Transition: U.S. Assistance and Issues for Congress* (May 1999).

[3] The United States also provided loan and other guarantees to support roughly $6 billion in the face value of U.S. goods and investments to meet trade objectives. As these mostly benefitted U.S. exporters and investors, they are not discussed here.

Figure 1. Objectives of U.S. Assistance to Russia: 1992-2001



Security Programs

Of the roughly $3.2 billion obligated for security purposes, most ($1.9 billion) has come from the Department of Defense appropriations, authorized under the so-called Nunn-Lugar Cooperative Threat Reduction Program (CTR) first approved by Congress in November 1991. Related programs are also funded and implemented by the Department of Energy and Department of State. The bulk of security programs are intended to lessen the potential threat to the United States posed by Russian nuclear weapons, material, and expertise vulnerable to sale, theft, or hire by terrorists or rogue nations. There are several key components of these efforts.

Weapons Destruction and Dismantlement

The CTR program has helped Russia meet START I treaty limits by facilitating the elimination of delivery vehicles for nuclear weapons, including SS-18 missile silos and heavy bombers, and supporting destruction of its chemical weapons stockpile.

Control and Protection of Nuclear and Other WMD (Weapons of Mass Destruction) Material

The United States has provided design and construction assistance for a storage facility for fissile material from dismantled nuclear warheads, along with the containers for the transport of warheads and storage of materials. It has sought to enhance the security of warheads and materials during transport, storage, and at research facilities by such measures as providing supercontainers, inventory control systems, sensors, and personnel reliability methodologies. Customs officials have received training and radiation detectors have been provided in order to thwart illegal export of fissile materials.

Demilitarization

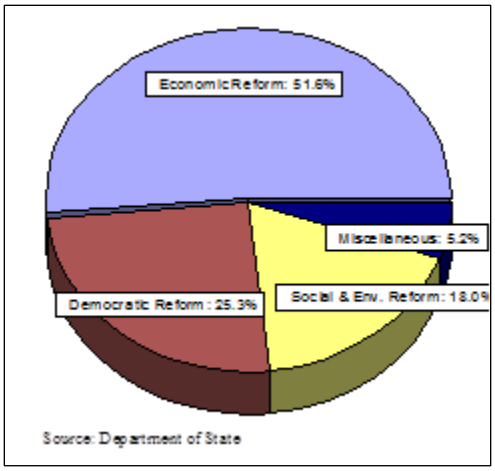
U.S. assistance has supported the conversion of Soviet defense industries into commercial, non-military, enterprises. Several programs aim to employ Soviet WMD scientists in peaceful civilian research.

Humanitarian Programs

Since 1992, the United States government has provided Russia with $2.8 billion in humanitarian assistance. Almost all of it has been food aid, delivered under the P.L. 480 Food for Peace, Section 416(b), and the Food for Progress programs carried out by the Department of Agriculture, and most (79%) was provided during the two years of 1993 and 1999 in response to perceived shortfalls in production. In some cases, food was given to private voluntary organizations for distribution to the needy. In other cases, commodities were sold and their proceeds were used to support development objectives – such as the cooperative credit system, child vaccination programs, and the Russian Pension Fund. The U.S. government has also provided transport costs for medical and other aid donated by the private sector, and has contributed to international organizations working in Chechnya.

Stability Programs

Figure 2. U.S. Assistance for Russian Stability: 1992-2001



Programs aimed at creating a stable and peaceful Russia by facilitating its transition from authoritarian communism to a free market democracy have received particular attention from Congress and the public. During the past ten years, $2.9 billion, mostly funded under the NIS (New Independent States) account of the foreign operations appropriations and authorized under the FREEDOM Support Act (P.L. 102-511) has gone to such efforts.[4] Projects designed to meet these objectives have been numerous and diverse. The breadth of purpose and sectors they cover, many of which overlap, make it difficult to categorize them. They might be put into three broad baskets.[5]

Economic Reform

More than half (51.6% – about $1.5 billion) of stability programs appear to have as their primary objective the economic restructuring of Russia and development of a strong private sector economy. Among the projects that sought to meet this need were efforts to encourage reform of tax, banking, fiscal, energy, housing, and privatization policies. U.S. funds have been made

[4] About 89% of stability programs were funded under the NIS account.

[5] A fourth, miscellaneous, catch-all group, composes 5% of stability efforts. These mostly include funds for the Peace Corps and USAID training programs – cross-cutting activities that benefitted all three stability objectives.

available for equity investments in small and medium business, and loans to small and micro-business. Technical advice has been provided to farmers and businesses, as well as opportunities to gain experience in U.S. firms. Various efforts have been made to promote U.S. trade and investment in Russia.

Democratic Reform

By the narrowest definition, only 8% of stability efforts in Russia were directly geared toward the development of democratic institutions and practices. These would include projects providing advice to staff of political parties and election commissions, encouraging the growth of civil society through offering advice and funding to non-governmental advocacy organizations, promoting the rule of law through provision of judicial training programs and expertise on a civil code, and crime and anti-corruption programs. Democracy programs, more broadly defined, also include a wide range of U.S. exchange programs and small grants to NGOs, many of which facilitated economic reform or other objectives, but whose effect, through exposure to U.S. institutions or development of indigenous civil society, has been helpful to democratic development. A quarter of stability programs fit this broader definition ($733 million).

Social and Environmental Reform

Social and environmental reform activities account for about 18% of stability efforts ($522 million). Programs to improve the social welfare and environmental conditions of the Russian public were largely intended to bolster the key U.S. objectives of economic and democratic reform. Experts have argued that the Russian public would be more likely to support these objectives if they experienced fewer negative consequences as a result of reform efforts. Unenforced environmental standards by the communist regime and the end of a cradle-to-grave social system have fostered a dramatic health and environmental crisis in Russia. Health programs supported by U.S. assistance have sought to reform health care delivery and financing systems, and they have targeted specific diseases such as HIV/AIDS and tuberculosis. U.S. hospitals have provided equipment and expertise to partner hospitals in Russia. Family planning assistance has been provided as an alternative to the common practice of abortion. Russian orphanages have been assisted.

Environmental programs have provided small grants to innovative indigenous projects and replication of “best practices”, and have supported use of the Internet and email to strengthen communication between environmental groups spread throughout Russia. They have supported forest management reform and reforestation, and pilot demonstration anti-pollution and energy efficiency projects. To avoid a Chernobyl-like scenario, the Department of Energy and the Nuclear Regulatory Commission have provided training and equipment to improve the safety of Soviet-designed power plants.

Criticism and Achievements

When the FREEDOM Support Act was introduced in 1992, government officials tried to sell the program as a relatively short-term effort, lasting until FY1998. However, even then, many realized that the transition to democracy and free markets might take a generation or more, depending on the sincerity and rapidity with which political leaders adopted the basic framework and laws of a new political and economic system. At the present time, Russia’s transformation remains an unfinished work with analysts ranging from doubtful to hopeful in their views of its

future course.[6] Views of the U.S. assistance program follow the same trajectory. Both optimistic and pessimistic perspectives have helped shape the current program and can provide lessons for its future.

In any case, the role of the aid program in Russia's progression to what it is today and to what some expect it to become is hard to define. Even in countries such as South Korea or Costa Rica where the aid programs were proportionately large and their political and economic development highly successful, the connection between the U.S. programs there and specific consequences is obscured by the numerous variables that come into play. The results of some programs are more easily measured than others, such as numbers of children vaccinated, which logically means lesser incidence of disease, or elimination of missile launchers, which directly leads to the conclusion that U.S. security is enhanced. The immediate returns on most programs are often straightforward such as numbers of micro loans provided or people trained in business management. How the trainees or loan recipients ultimately contributed to the broader objective of creating a market economy, however, is less clear. If the program objective is concrete, the budget "sufficient", activities narrowly focused on the goal, and the recipient environment cooperative, as was more often the case with security and humanitarian programs in Russia, the results may be more transparent. Stability programs had few of these features and only the short-term results appear "measurable". Further, U.S. stability assistance was never expected to be the primary determinant of a successful Russian transition. Its impact could only be at the margins. Such considerations should be kept in mind when judging the impact of U.S. assistance programs in Russia.

Criticism

From the time it was launched, negative critiques of the aid program have emerged with regularity.[7] Some attacks, many hyperbolic, may have had ulterior motives – for example, those linking the aid program to Vice President Gore as the 2000 election approached or the snipes at aid implementors made by some unsuccessful applicants for funds. But there was also criticism from knowledgeable individuals who seemed to be primarily interested in more effective outcomes. Most criticism understandably appears founded on the seeming lack of success in aspects of the Russian economy and democracy, at least up to the year 2000. In the past two years, however, as the economy has shown signs of significant progress, criticism of the aid program has largely diminished. Whether this is because the current stability program is relatively small or is credited with the recent success, or whether critics are reconsidering their earlier assessments is unclear.

The range of criticism can be summarized as follows:[8]

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[6] The former category might include Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post-Communist Russia*, W.W. Norton, NY, 2000. More hopeful views are expressed by Anders Aslund, "Think Again: Russia", *Foreign Policy*, July-August 2001; Michael McFaul, "Getting Russia Right", *Foreign Policy*, Winter 1999-2000.

[7] Among more recent negative critiques are: *Food Aid to Russia: The Fallacies of U.S. Policy*, Mark Kramer, Program on New Approaches to Russian Security (PONARS) Memo 86, October 1999; *An Agenda for Renewal: U.S.-Russian Relations*, Carnegie Endowment for International Peace, December 2000; *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998*, Janine R. Wedel, New York, 1998; *International Efforts to Aid Russia's Transition Have Had Mixed Results*, GAO, November 2000; *Warm Words and Harsh Advice: A Critique of the West's Role in Russian Reforms*, International Affairs, vol. 77/ 4, 2001, p. 947-955; *Russia's Road to Corruption: How the Clinton Administration Exported Government Instead of Free Enterprise and Failed the Russian People*, Speaker's Advisory Group on Russia, House of Representatives, September 2000.

[8] In addition to these policy-related critiques, observers have raised concerns regarding the administration of projects,

Too Little, Too Late

Efforts to assist the democratic and economic transition in Russia have often been criticized as offering too little funding, too late. Early on, the George H. Bush Administration was criticized for reacting too cautiously to the dramatic changes taking place in the Soviet Union in 1991. CTR security initiatives launched in that year came entirely from Congress. Although some small stability-related programs were proposed by the Administration, it was not until the April 1992 announcement of the FREEDOM Support Act, following critical comments from national figures such as former President Nixon, that a concentrated effort was made to offer U.S. aid and organize support from international donors. To those expecting a new Marshall Plan in response to what appeared then to be a short window of opportunity for adoption of revolutionary and painful reforms, the U.S. contribution was considered paltry and half-hearted, and the bulk of offered international assistance, loans from the IMF and World Bank, were not appealing to a country reluctant to add to its debt.

A year later, the Clinton Administration proposed a significant increase in U.S. stability assistance – roughly $1.5 billion. Following this one-time infusion of aid, annual levels appropriated for Russia quickly declined, settling below $200 million. Throughout the decade, critics continued to remark on the disparity between the supposed importance of Russia to U.S. interests and the level of funding for efforts to effect change there. Although Russia received a greater proportion of available funding for the region, neighboring nations, such as Armenia and Georgia, with significantly smaller populations consistently ranked higher than Russia as recipients of aid on a per capita basis.

Table 1. U.S. Assistance to Russia from NIS Account

($ millions)

Fiscal Year	1992-93	1994	1995	1996	1997	1998	1999	2000	2001	2002
Administration Request	–*	–*	379.4	260.0	173.0	241.5	225.4	295.0	161.9	167.0
Allocation after Appropriation	350.0	1,300.0	344.2	137.0	94.8	133.2	161.2	186.6	163.6	161.6

Notes:

*Prior to FY1995, the Administration did not break-down its NIS account request by country.

Too Much, Too Early

Some would argue that a major reason for failed projects and wasted resources in the early years was the impetus to spend before there was a serious prospect of success in certain sectors. Economic reform legislation was developed with U.S. assistance while a communist dominated parliament was inclined to thwart each measure. Assistance was offered to develop farming before land was privatized. And foreign investment was encouraged before rule of law safeguards

asserting the inadequacy of management, ineffectiveness of implementation, and possible malfeasance of individuals employed in projects. In some cases, the charges have been significant. For example, the DOD Inspector General found that $2.2 million of Defense Enterprise Fund expenses would have been unallowable if subject to Federal cost principles, and noted that more than half its $66 million budget was spent on management and administration rather than the investments for which it was established. A Justice Department $120 million law suit, resolution of which is still pending, was brought against Harvard Institute for International Development contractors for allegedly using their positions in a USAID privatization project for personal gain.

were in place to protect investors. Ironically, as some have pointed out, by the time serious reform was underway and small business and civil society better established, significant amounts of funding were no longer available.

Too American

However much the United States claimed to provide to Russia, the fact is that much of the effort was self-focused, and many of the funds never left American hands.[9] Moreover, many critics complained that Americans with specific knowledge of Russia were underutilized in the formulation and implementation of assistance programs. Stability programs designed and run by non-expert Americans were accused of displaying little cultural sensitivity and providing advice that was inappropriate. Few Russian staff members were hired to compensate for American ignorance of local matters. These criticisms were mostly aimed at the large for-profit contractors that focused on government policy reform work and dominated the aid program in the early years. Critics also argued that inadequate funds were provided to the relatively smaller NGOs which worked with the Russian grassroots and were more responsive to local realities and needs. As a result, U.S. assistance created a degree of public resentment, critics would argue, instead of the anticipated good will.

To the Wrong Russians

Both the George H. Bush and Clinton Administrations announced that aid should follow reform. However, some have observed that, partly due to the lack of Russia expertise or a misguided effort to support the Yeltsin government, aid was provided to individuals or groups that were not reformist. In particular, critics pointed to U.S. support for Anatoly Chubais' program of privatization, which they assert exacerbated income divisions and helped foster the so-called "oligarches". Policymakers, according to critics, blindly provided support to Yeltsin, despite his inconsistent support for economic reform and democracy, rather than to democratic "institutions".[10] When a substantial amount of food aid was provided in 1993, many suggested that proceeds were channeled through corrupt officials who may have used them illegitimately. Others argued that congressional directives funneling funds to specific regions insured ineffective programs by assisting non-reformers.

The Wrong Strategy

Some critics disagreed with the mix of programs that were funded by the United States. They argued, for example, that stability programs emphasized economic reform efforts while leaving democracy programs underfunded. Stronger democratic institutions, they suggested, would have led to more economic reform. Some critics argued that too much assistance was provided to programs in Moscow and not enough to the regions. Others contended that too much went to the reform of Russian government policies and not enough to grassroots activities and the private sector, or that reforms were a too-radical "economic shock therapy" that simply alienated the

[9] A GAO report criticized the DOE Initiatives for Proliferation Prevention program for providing only one third of its funds to Russian institutes for employment of scientists. But most security assistance, in the form of U.S. equipment such as containers, and humanitarian aid – U.S. commodities – were items requested by the Russian government. On the other hand, stability aid was mostly U.S. technical advisers and equipment, key exceptions being monetary grants to grassroots organizations, equity investments in private sector firms, and grants provided for on-lending to small and micro-business. The Russian government had little to do with how stability funds were spent.

[10] For example, *Supporting Democratic Institutions Rather than "Democrats" in Russia*, Regina Smyth, PONARS Policy Memo 139, April 2000.

Russian public. Still others assert that the U.S. objective of free market economy was inherently wrong for Russia, that government should play a more active role there.[11]

Some CTR critics argued that funding the destruction of chemical weapons was less important than elimination of nuclear weapons; others that more funds should have gone to insuring the security of materials used to produce weapons. Some questioned the wisdom of defense conversion programs, arguing they subsidized the Russian defense industry and had no effect on current production capacity. Others suggested that funding weapons dismantlement while Russia continued to modernize its systems simply subsidized defense modernization. Critics of food aid argued that sale of the commodities lowered local food prices and harmed Russian farmers, especially the new independent farmers some aid programs were trying to encourage.

There are many possible responses to the numerous and disparate criticisms made during the past ten years: It could be said that, no matter the amount of funds available, little could be done without a strong commitment on the part of the Russian government to support the few Russian reformers who emerged in positions of power. In fact, some argue that Russia's problem was that it did not adopt seriously radical reform. While, there were American experts on Russia who knew more than Kremlinology, it has been pointed out that few of these had experience in running assistance programs, and that no one had expertise on the transformation from communism to democratic capitalism. Everyone had their own formula for how funds could best be spent. And many of the criticisms, even those written as late as 2000, were based on aspects of the first four years of the program that had since changed.

Achievements

In taking aim at individual aspects of the aid program – the privatization effort, corrupt food aid, insufficient support for democratization, etc. – critics often promoted the impression that the whole aid program was in dispute. While there was much in the critiques that rang true, there were also many things that could be said to be right with the program, positive accomplishments, some of which have been noted by the critics themselves.

Security Program Achievements

A January 2001 report by the Russia Task Force co-chaired by former Senate Majority Leader Howard Baker and former White House counsel Lloyd Cutler found that "current nonproliferation programs in the Department of Energy, the Department of Defense, and related agencies have achieved impressive results thus far...".[12] Among these are elimination of 396 SLBM launchers, 438 ICBM silos, 97 strategic bombers, and 486 ICBMs. Secure storage of fissile materials has been enhanced by delivery of 32,000 containers and by assistance in construction of a storage center. The stockpile of nuclear weapons is more secure due to upgrades in inventory and security systems. Interdiction capabilities have been strengthened by providing border crossings with radiation detection equipment and guards with training. The employment of thousands of scientists may have helped prevent a brain drain of sensitive expertise in weapons of mass destruction and to some extent re-directed that expertise toward peaceful, commercial enterprises.

[11] See *The Limits of U.S. Influence on Russian Economic Policy*, Mark Kramer, PONARS policy memo 173, November 2000.

[12] *A Report Card on the Department of Energy's Nonproliferation Programs with Russia*, January 10, 2001, Russia Task Force, Secretary of Energy Advisory Board, page 1.

Humanitarian Program Achievements

Twice in the past decade, in response to production shortfalls, the aid program provided large quantities of food assistance to Russia. It has also provided transport costs to deliver more than $628 million in privately donated food, medical and other supplies, and contributed to international organization work in the North Caucasus region. While some of the food deliveries may not have been necessary, tens of thousands of displaced persons, children, pensioners, and other needy individuals received food and vaccinations, and pensioners received financial aid from the proceeds of food sales they may otherwise not have received.

Stability Program Achievements

While no one will argue that Russia has become a full fledged western democracy and free market economy, it has changed radically since the end of the communist era (and continues to evolve in directions we can only surmise). Tens of thousands of private businesses now exist, political parties and grassroots advocacy organizations proliferate, travel abroad is unrestricted, an open exchange of information, including the internet and a much more free press exist. Further, Russia has made a strategic shift, especially since 9/11, toward closer ties with the United States and the West. Stability programs did not create this situation, but they nurtured it, and, to some facets of the new order, the contribution was arguably significant. Stability programs sought to affect many discrete aspects of Russian life, but perhaps their greatest cumulative impact in the long-term may have been the introduction, dissemination, and practice of new ideas.

Exposure to New Ideas

A large number of assistance projects sought to change Russia by exposing its government and citizens to new ideas.

- **Policy reform**. U.S. technical experts and U.S.-supported Russian indigenous think tanks have provided advice to national and local governments on legal and administrative reforms in a wide range of sectors. While many reforms have yet to be implemented, these efforts have introduced officials to procedures and law in other countries and laid the groundwork for the large number of reforms that have been approved in the past few years under President Putin. A program to assist fiscal reform, for example, provided the Ministries of Finance and Taxation, the Budget Committee of the State Duma, the regional administrations of six oblasts, and the municipal administrations of Novgorod and Tver with analytical models for forecasting the effects of tax policy. The program also trained a team of Russian specialists in these skills.[13] Housing reform project staff reportedly contributed views on 160 national laws and decrees and directly drafted 37 legislative acts.[14] Tax reform proposals by the USAID-supported Institute for Economies in Transition were adopted into law.

[13] Work carried out for USAID by Georgia State University and the Russia Public Finance Center it founded. *Final Report Evaluation of the Impact of Technical Assistance on Russia's Fiscal Reform and the Identification of Possible Future Work*, Carana Corporation, March 21, 2000, p. 49. Advice on tax administration and enforcement was also provided to the Ministry of Finance by U.S. Department of Treasury-appointed advisers.

[14] Work carried out for USAID by Urban Institute. *Evaluation Report: The Russian Housing Sector Reform Project Phases I and II*, Carana Corporation, November 1999, p.4.

- **Rule of law**. A 1993 pilot program run by the ABA to introduce the concept of jury trials into Russia bore fruit in 2001 with their nationwide adoption for all serious crimes.
- **Mortgage finance**. Housing reform specialists introduced the practice of residential mortgage lending to Russia by drafting a legislative framework for this activity, writing the industry's "how-to" handbook, and offering technical assistance to banks. By 1998, 47 banks were making mortgage loans.[15]
- **International accounting standards**. U.S. experts promoted the use of international accounting standards to Russian business in order to make it easier to attract investors and qualify for loans and to promote transparency. In 1999 alone, 3,670 were trained.[16]
- **Direct exposure to the United States**. Since 1992, more than 50,000 Russians were brought to the United States for both targeted education and training and broader familiarization with U.S. culture and institutions. For example, the SABIT program provided experience working in a U.S. business (238 in 2001), the Cochran program experience in agriculture-related concerns (30 in 2001), and the Productivity Enhancement Program management-training internships (675 in 2001). The Open World Program (formerly Russian Leadership Program) brought promising leaders for short visits, including home-stays, at the grassroots level (almost 4,000 since 1999).[17]
- **Person-to-person exposure**. Several programs brought American volunteers to Russia, emphasizing personal contact with Americans as much as provision of "know-how" at a grassroots level. During their two-year term of service, Peace Corps volunteers (174 in 2001) taught English and business skills. The Farmer-to-Farmer (152 in 2001), Financial Service Volunteer Corps, International Executive Service Corps, and others provided the technical skills of practicing and retired farmers and businessmen to their counterparts in Russia on a one-to-one, short-term basis.
- **Advice and training for business**. Emerging businesses and their employees received both general and specialized training in business skills as well as targeted, individualized advice. In FY2001, business support institutions served 8,000 businesses and trained 77,000 people. Many of the volunteer programs noted above were aimed at providing experts to individual business clients to help solve specific problems, such as how to improve production or marketing. More than 1.7 million Russian school children were introduced to concepts of capitalist economics through Junior Achievement programs.[18]

[15] *Evaluation Report: The Russian Housing Sector*, p. 28-33.

[16] *Results Review and Resource Request: USAID/Russia, April 2000*, p.14.

[17] Implemented by the Departments of Commerce, Agriculture, and State, and the Library of Congress, respectively. The vast majority of exchange programs (serving more than 32,000 Russians since 1992) are conducted by the Department of State's Bureau for Education and Cultural Affairs; USAID has brought over 9,000 Russians to the United States for project-related training.

[18] *FY2002 USAID/Russia Annual Report*, p. 3.

Creating Vehicles for Dissemination of Ideas

Many aid projects sought to increase the capabilities of organizations that traditionally act as agents of change and disseminators of new ideas.

- **Internet networking**. In the first years of the assistance program, aid was provided to ISAR, an organization which facilitated the sharing of ideas and strengthened the solidarity of environmental NGOs in part by establishing an email network system linking them. Support for Internet access and training at more than 50 sites throughout Russia has been provided to alumni of U.S.-sponsored exchanges in order to build contacts among them and reinforce positive experiences gained while in the United States.[19]
- **Think tanks**. To continue the policy reform work provided by U.S. experts, USAID supported the creation and strengthening of more than two dozen indigenous Russian think tanks whose expertise – often former Russian associates of U.S. technical experts – could be drawn upon by national and regional governments. For example, the Institute for Economies in Transition, run by Yegor Gaidar, produced tax, budget, land code, and other policy studies and provided advice to the government. The Moscow School of Political Studies trained young leaders in democratic principles.
- **Developing civic organizations**. The United States has aided the development of institutions, such as NGOs, political parties, and trade unions, that advocate new ideas and are essential to a healthy civic society. U.S. assistance helped 5,000 NGOs in 1999 through 48 Russian NGO resource centers.[20]
- **Independent media**. U.S. aid has offered training and technical assistance to television and print media. During the 1998 economic crisis, grants were provided to help independent television stations survive despite a drop in advertising revenue.[21]
- **Developing business support organizations**. Assistance programs have supported 33 business service centers offering consulting and other services to small and medium business, and fostered development of business educational training through support to 59 business schools.[22]

Putting Ideas into Practice

Through grants, lending programs and other means, U.S. assistance has helped individual businesses and civic organizations apply the new entrepreneurial and democratic concepts often learned through training and technical assistance.

- **Loans and Guarantees**. The United States provided funds to Russian institutions for on-lending to micro, small, and medium sized businesses. USAID programs disbursed 32,000 micro loans in FY2001. U.S. assistance programs

[19] ISAR is the Initiative for Social Action and Renewal in Eurasia. The Internet Access and Training Program is carried out by Project Harmony for the Department of State.

[20] Work carried out for USAID by IREX, ISAR, and others. *USAID Results Review*, p.28.

[21] Work carried out for USAID by Internews and others.

[22] Service centers work implemented for USAID by Citizens Democracy Corps, ACDI-VOCA, and others; Morozov schools by the Russian Academy for Management and Market.

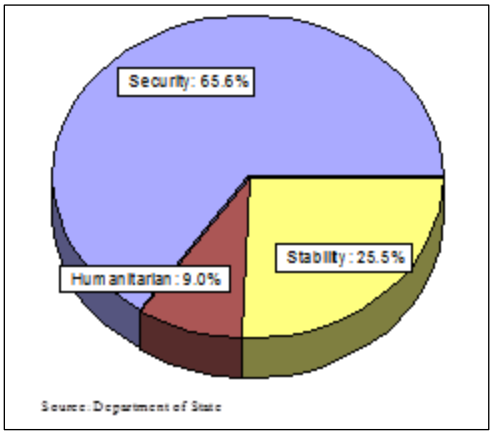
provided guarantees on loans enabling Russian banks to make their first residential mortgage and auto loans.

- **Grants**. Several programs provided competitive grants to non-governmental organizations to enable them to conduct programs contributing to reform at the grassroots level. Since 1993, a U.S. funded foundation has provided more than 2,000 grants worth over $50 million to NGOs, local governments, independent media, and private businesses seeking demonstrable positive results in the fields of enterprise development, public administration, and civil society. Another program awarded funds (87 grants in 1999, most in the $30,000 range) to replicate successful environmental practices.[23]

The Russia Program After Ten Years

The U.S. assistance program of today is substantially different from what it was in its initial several years. Lessons learned as a result of failure and achievement, of criticisms and congressional review during the first years set in motion reevaluations of programs and redistribution of resources. In many cases, programs were revised internally even before outside criticisms were made.

Figure 3. Objectives of U.S. Assistance to Russia: FY2001



By FY2001, the most recent year for which data is available, the program's broad profile had shifted dramatically. First, program priorities appeared to have changed. Whereas a ten year profile showed a near balance between spending on security, stability and humanitarian concerns, by FY2001, there was an overwhelming emphasis on the security objective. Security funding increased in absolute terms as well over the period and even began to be drawn from the chief pool of resources available for stability funding, the NIS account of the foreign operations appropriations. Humanitarian aid, which reflected responses to specific food crises in 1993 and 1998, dwindled by 2001. Meanwhile, actual stability funding was cut, in part due to the perception that the program was slow in meeting its economic and political reform objectives and in part reflecting broad cuts in foreign aid following the accession of a budget-trimming Congress (that have been reversed since 1999). Moreover, Congress made specific cuts for Russia programs in response to concerns regarding Russian government behavior abroad and at home.

[23]Work implemented for USAID by the Eurasia Foundation and the Institute for Sustainable Communities, respectively.

Table 2. Total U.S. Assistance to Russia

(obligations in $ millions)

Fiscal Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Total
Stability	71.6	312.8	984.6	352.4	224.7	169.6	231.9	169.9	164.3	221.2	2902.9
Human.	164.3	1063.2	39.4	48.7	23.8	15.8	6.9	1164.1	243.9	77.9	2847.9
Security	3.2	97.00	209.2	202.9	187.8	408.9	353.7	491.9	628.7	569.3	3152.5
Total	239.2	1472.9	1233.1	604.0	436.3	594.3	592.5	1825.9	1036.9	868.3	8903.3

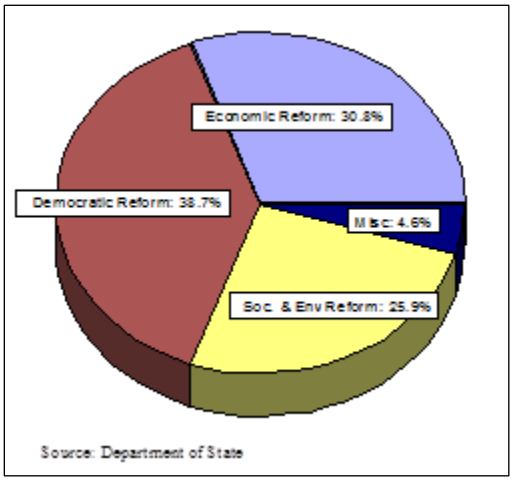
Source: Department of State

Bearing the brunt of budget cuts and criticisms, the composition of the stability program changed far more sharply during the decade than did the security programs.[24] Perhaps the most striking feature has been a shift in emphasis from economic reform to democratic reform. For the whole period, economic reform received 51.6% of stability funds; but in FY2001, it received only 30.8%. Democratic reform efforts, on the other hand, were supported with 25.3% of overall funds, but in FY2001 received 38.7%. To be sure, the emphasis seems to be on exchanges rather than institution-building, but even the narrowly defined democracy programs represent 11.3% of stability efforts in FY2001 versus 7.9% during the whole period. The greater priority now given broad democracy activities reflects the lack of progress in economic reform until recently, past criticism that not enough attention was being paid to democracy-building and person-to-person contacts, and cuts in assistance to the central government of Russia which was the recipient of much economic reform aid.[25] The proportionate increase in social aid from 18% during the whole period to nearly 26% in 2001 is a reflection of the increased response to the health crisis in Russia, particularly the rise of infectious diseases.

[24] Within the security program, percentages devoted to weapons dismantlement, material control, and demilitarization changed little during the period.

[25] The cuts were the result of congressionally-imposed conditions that subjected half or more of aid to the central government in FY1998 and later years to the requirement of a presidential determination that Russia had terminated sales or transfer of nuclear reactor technology to Iran.

Figure 4. U.S. Assistance for Russian Stability: FY2001



By 2001, the make-up of the stability program had changed in a number of other important ways. Extrapolating from the experience of USAID, which accounted for roughly half of stability program activity, very little assistance was still being directed toward helping the central government of Russia. Although the central government was the key target of the large number of policy reform efforts undertaken in the 1993-1995 period – in FY1996, the first year for which data is available, accounting for 17% of USAID's program – by 2001, central government-related projects accounted for only 5%. USAID support for private sector activities rose correspondingly, from 68% of the FY1996 program to more than 82% in FY1999.

There is also some evidence, based on USAID activities, that, compared with its early years, the assistance program now has more activities in the regions than in Moscow and Petersburg (80% in the regions in FY2000), more funds directed toward NGOs (75% in FY2000), and more Russian nationals involved as both implementors and staff. Considerable effort has gone in recent years to creating indigenous think tanks and nongovernmental organizations that can carry out policy reform technical assistance, social-environmental programs, and business support efforts.

Many of these changes were featured in the Clinton Administration's Partnership for Freedom initiative, which was introduced in 1997 largely in response to the criticisms noted above and in an effort to recover congressional support. A Regional Initiative was introduced at the same time, concentrating aid on three (later five) regional sites in a bid to attract foreign investment and improve program effectiveness. The two initiatives promised to alter the prevailing aid strategy toward Russia, and, in this, appear to have succeeded.

Prospects for the Future

The aid program has continued to evolve in response to developments in Russia, changes in U.S. foreign policy, and budget pressures. Calling for a "more pragmatic" approach to Russia, the new Bush Administration, soon after taking office, launched a review of the whole aid program.

Following an intensive study of the"stability" aid program, an inter-agency NSC Policy Coordinating Committee Assistance Working Group produced its recommendations in late summer 2001. The Group's main conclusion supports concentration of the program's future focus on three areas – support for entrepreneurs, strengthening of civil society and the media, and improving the health of the Russian people. The strategy does not entirely reject, but does downplay, further assistance to the central government. The Group also called for efforts to apply

the lessons learned implementing the five regional initiatives more widely throughout the country. And it supported a balance between programs that have long-range structural objectives and programs that can produce real results affecting ordinary Russians in the short-term. The Assistance Working Group further recommended an improvement in both coordination between implementing agencies and integration of disparate programs to support a shared goal.[26]

The recommendations do not call for dramatic shifts from previous practice, which, in any event, a limited and, perhaps declining, budget might not support. Nevertheless, some small programmatic changes are already apparent in 2002. Funds have been cut for an EPA environmental remediation program and a Commerce business development effort that do not fit the new strategy focus, an educational exchange viewed as redundant, and Treasury advisors to the central government where the impact is not strong. In accordance with the new strategy, modest increases are expected for media assistance programs, health, and civil society NGO advocacy support programs.[27]

A similar review of the nonproliferation assistance program completed in December 2001 also recommended changes. Overall, it found "that most U.S. programs to assist Russia in threat reduction and nonproliferation work well, are focused on priority tasks, and are well managed."[28] It did, however, conclude that several programs be expanded and others altered. The Administration's FY2003 budget adopted these recommendations. Scheduled to be expanded were the two programs to secure nuclear material – the Department of Energy's Material Protection, Control, and Accounting (MPC&A) program and the Warhead and Fissile Material Transparency program – and two scientist demilitarization programs – the International Science and Technology Center and the Redirection of Biotechnical Scientists programs. Administration support has also been given to accelerating construction of a chemical weapons destruction facility. In the interest of efficiency and effectiveness, some programs with similar purposes are being consolidated – the Nuclear Cities Initiative with the Initiatives for Proliferation Prevention and the Second Line of Defense program with the MPC&A program – and the Plutonium Disposition project is being subjected to further review.

Since 1992, the mix of aid programs has changed over time, evolving in different directions in response to assessments and re-assessments of what is possible and most effective under the always changing circumstances within Russia itself. While the program's effectiveness is liable to continued scrutiny by policymakers and analysts, it appears that, after ten years, the broad objectives of the aid program to Russia remain much as they were at the beginning – stability, security, and, when circumstances warrant, humanitarian relief. A democratic, economically prosperous Russia which can maintain firm control over its WMD resources continues to be a major foreign policy goal of the United States.

One strain of concern, constant throughout the decade, remains. Whatever the mix of programs, is enough being done – is sufficient funding being provided in absolute terms – to meet stability and security objectives? The January 2001 Baker-Cutler report, for example, called for spending $30 billion in nonproliferation assistance over the next 8 to 10 years, a five-fold increase in current levels.[29] A July 2001 report from three former Senators, while rejecting "endless advice or

[26] *Report of the Europe/Eurasia PCC Assistance Working Group: Review of U.S. Assistance to Russia*, State Department, 2001.

[27] As a result of the review, USAID revised its Russia strategy. *USAID/Russia Strategy Amendment (1999-2005)*, February 2002.

[28] *Fact Sheet: Nonproliferation, Threat Reduction Assistance to Russia*. The White House. December 27, 2001.

[29] *A Report Card ...* , page. 3.

limitless doses of foreign aid", supported "a large investment" in programs that would expose Russian lawmakers, journalists, and educators to U.S. business, bring students to U.S. business schools, provide credit to small and micro business, and address global issues such as HIV/AIDS.[30] Many commentators have continued to call for increases in funding of democracy support.[31]

Recent events put the question of sufficient resources into sharper focus. As the government of Russia adopts U.S. aid-supported economic reforms but is slow to implement them, as the Putin government's support for democratic institutions of independent media and civil society remains uncertain (highlighted by the recent Russian termination of OSCE monitoring in Chechnya and Russian withdrawal from participation in the Peace Corps program), and as the war on terrorism increases the threat of diversion of Russian weapons of mass destruction, many argue substantial needs that could be addressed by U.S. assistance.[32] Despite these trends, the Bush Administration is reportedly planning an FY2004 budget request that will substantially reduce the stability program for Russia (by as much as a third) and begin a process leading to "graduation" from the aid program.

The United States continues to hold a very strong interest in Russia and the outcome of events there. Whatever the accomplishments of the past ten years, U.S. assistance may continue to play a role in those events. The nature and extent of that role, however, is likely to be a continuing challenge to policymakers.

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[30] *Toward the Common Good: Building a New U.S.-Russian Relationship*, EastWest Institute Bipartisan Task Force, Chairmen: David L. Boren, John C. Danforth, and Alan K. Simpson, July 2001, p. 28-29.

[31] Most recently, "Backsliding in Russia," *Washington Post*, January 11, 2003, A20.

[32] At the same time, some argue that the need to maintain Russian support for other U.S. policies in Iraq and elsewhere has led the United States to overlook human rights and democracy concerns held previously.